

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

**▶ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012**

**OR**

**“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

Commission File Number 000-53619

**VERTEX ENERGY, INC.**

*(Exact name of registrant as specified in its charter)*

**NEVADA**

*(State or other jurisdiction of  
incorporation or organization)*

**94-3439569**

*(I.R.S. Employer Identification No.)*

**1331 GEMINI STREET**

**SUITE 250**

**HOUSTON, TEXAS**

*(Address of principal executive offices)*

**77058**

*(Zip Code)*

Registrant's telephone number, including area code: **866-660-8156**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, and accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

State the number of shares of the issuer's common stock outstanding, as of the latest practicable date: 10,745,454 shares of common stock issued and outstanding as of August 3, 2012.

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**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements****VERTEX ENERGY, INC.  
CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	<b>(UNAUDITED)</b>	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 4,177,443	\$ 675,188
Accounts receivable, net	3,778,844	5,436,006
Accounts receivable- related party	200	2,459
Inventory	6,603,579	6,408,780
Prepaid expenses	329,640	151,821
Total current assets	<u>14,889,706</u>	<u>12,674,254</u>
Noncurrent assets		
Licensing agreement, net	2,041,994	1,929,549
Fixed assets, net	119,593	124,168
Deferred federal income tax	1,951,000	2,006,000
Total noncurrent assets	<u>4,112,587</u>	<u>4,059,717</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 19,002,293</u></b>	<b><u>\$ 16,733,971</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 7,232,662	\$ 6,464,193
Accounts payable-related party	748,026	620,724
Deposits	-	235,557
Total current liabilities	<u>7,980,688</u>	<u>7,320,474</u>
Long-term liabilities		
Deferred federal income tax	103,000	76,000
Total liabilities	<u>8,083,688</u>	<u>7,396,474</u>
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.001 par value per share: 50,000,000 shares authorized		
Series A Convertible Preferred stock, \$0.001 par value, 5,000,000 authorized and 3,211,328 and 4,426,639 issued and outstanding at June 30, 2012 and December 31, 2011, respectively	3,211	4,427
Common stock, \$0.001 par value per share; 750,000,000 shares authorized; 10,685,322 and 9,414,926 issued and outstanding at June 30, 2012 and December 31, 2011, respectively		
	10,686	9,415
Additional paid-in capital	3,485,193	3,319,388
Retained earnings	<u>7,419,515</u>	<u>6,004,267</u>

Total stockholders' equity	<u>10,918,605</u>	<u>9,337,497</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 19,002,293</u>	<u>\$ 16,733,971</u>

See accompanying notes to the consolidated financial statements

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**VERTEX ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011**  
**(UNAUDITED)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	\$ 31,293,193	\$ 27,790,860	\$ 66,121,132	\$ 48,081,785
Revenues – related parties	-	-	-	17,978
	<u>31,293,193</u>	<u>27,790,860</u>	<u>66,121,132</u>	<u>48,099,763</u>
Cost of revenues	<u>30,542,452</u>	<u>25,325,275</u>	<u>62,485,327</u>	<u>43,363,282</u>
Gross profit	750,741	2,465,585	3,635,805	4,736,481
Selling, general and administrative expenses	<u>919,227</u>	<u>1,006,683</u>	<u>2,113,974</u>	<u>2,032,738</u>
Income (loss) from operations	(168,486)	1,458,902	1,521,831	2,703,743
Other income (expense)				
Interest income	633	-	633	-
Interest expense	-	(25,177)	(44)	(54,218)
Total other income (expense)	<u>633</u>	<u>(25,177)</u>	<u>589</u>	<u>(54,218)</u>
Income (loss) before income tax	(167,853)	1,433,725	1,522,420	2,649,525
Income tax (expense) benefit	<u>8,828</u>	<u>(22,986)</u>	<u>(107,172)</u>	<u>(42,689)</u>
Net income (loss)	<u>\$ (159,025)</u>	<u>\$ 1,410,739</u>	<u>\$ 1,415,248</u>	<u>\$ 2,606,836</u>
Earnings (loss) per common share				
Basic	<u>\$ (0.02)</u>	<u>\$ 0.17</u>	<u>\$ 0.14</u>	<u>\$ 0.31</u>
Diluted	<u>\$ (0.02)</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.19</u>
Shares used in computing earnings per share				
Basic	<u>10,136,941</u>	<u>8,535,111</u>	<u>9,781,851</u>	<u>8,487,392</u>
Diluted	<u>10,136,941</u>	<u>13,937,618</u>	<u>14,204,958</u>	<u>13,889,899</u>

See accompanying notes to the consolidated financial statements

**VERTEX ENERGY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**SIX MONTHS ENDED JUNE 30, 2012 AND 2011**  
**(UNAUDITED)**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2012</b>	<b>2011</b>
	<u>          </u>	<u>          </u>
Cash flows operating activities		
Net income	\$ 1,415,248	\$ 2,606,836
Adjustments to reconcile net income to cash provided by (used in) operating activities		
Stock based compensation expense	85,172	61,680
Depreciation and amortization	82,019	78,301
Deferred federal income tax	82,000	-
Changes in assets and liabilities		
Accounts receivable	1,657,162	(631,157)
Accounts receivable- related parties	2,259	(3,900)
Inventory	(194,799)	(2,145,868)
Prepaid expenses	(177,819)	(12,235)
Accounts payable	768,469	1,490,353
Accounts payable-related parties	127,302	561,003
Deposits	(235,557)	-
Net cash provided by operating activities	<u>3,611,456</u>	<u>2,005,013</u>
Cash flows from investing activities		
Payments for licensing agreement	(183,558)	(194,726)
Purchase of fixed assets	(6,330)	(32,274)
Net cash used in investing activities	<u>(189,888)</u>	<u>(227,000)</u>
Cash flows from financing activities		
Proceeds from exercise of common stock warrants	80,687	4,000
Net cash provided by financing activities	<u>80,687</u>	<u>4,000</u>
Net increase in cash and cash equivalents	3,502,255	1,782,013
Cash and cash equivalents at beginning of the period	<u>675,188</u>	<u>744,313</u>
Cash and cash equivalents at end of period	<u>\$ 4,177,443</u>	<u>\$ 2,526,326</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest during the period	<u>\$ 44</u>	<u>\$ 74,693</u>
Cash paid for income taxes during the period	<u>\$ 17,172</u>	<u>\$ 53,000</u>
<b>NON-CASH TRANSACTIONS</b>		
Conversion of Series A Preferred Stock into common stock	<u>\$ 1,216</u>	<u>\$ 95</u>
Conversion of Series B Preferred Stock into common stock	<u>\$ -</u>	<u>\$ 600,000</u>

See accompanying notes to the consolidated financial statements

**VERTEX ENERGY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(UNAUDITED)**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying unaudited consolidated interim financial statements of Vertex Energy, Inc. (the "Company," or "Vertex Energy") have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's annual consolidated financial statements as filed with the SEC on Form 10-K on March 29, 2012 (the "Form 10-K"). In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Certain prior period amounts have been reclassified to conform to current period presentation. Notes to the consolidated financial statements which would substantially duplicate the disclosure contained in the audited consolidated financial statements for the most recent fiscal year 2011 as reported in Form 10-K, have been omitted.

**NOTE 2. RELATED PARTIES**

The Company has numerous transactions with Vertex Holdings, L.P., formerly Vertex Energy, L.P. (also defined herein as the "Partnership" or "Vertex LP"), including the lease of the Partnership's storage facility, subletting of office space, transportation of feedstock to re-refiners and the Company's storage facility, and delivery from the Company's re-refinery to end customers. The pricing under these contracts is with certain wholly-owned subsidiaries of the Partnership and is priced at market, and is reviewed periodically from time to time by the Board of Director's Related Party Transaction committee. The Related Party Transaction committee includes at least two independent directors and will review and pre-approve any and all related party transactions.

The consolidated financial statements include revenues from related parties of \$0 and \$17,978 and inventory purchases from related parties of \$7,381,179 and \$6,109,872 for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, the Company owes \$748,026 of accounts payable to related parties including Cedar Marine Terminal ("CMT"), H&H Oil Baytown, H&H Oil Austin and H&H Oil Corpus. These entities are majority-owned and controlled by our Chief Executive Officer and Chairman, Benjamin P. Cowart. The Company also incurred process costs of \$3,858,699 and \$3,293,572 for the six months ended June 30, 2012 and 2011, respectively. The costs arise from the Thermal Chemical Extraction Process ("TCEP") operating agreement with CMT, whereby we pay up to \$0.40 per gallon of processing costs. In the past, both parties have agreed to share increased costs.

The Company subleases office space from Vertex L.P. Rental payments under the lease are \$6,600 per month and the lease will expire in June 2013.

The Company leases approximately 30,000 barrels in storage capacity for its Black Oil division at Cedar Marine Terminal, located in Baytown, Texas. The monthly lease expense is \$22,500 and the lease expired in March 2011; however, the parties have agreed to an extension of the lease with the same terms and conditions, through June 2012; provided that the terms of such extension are still subject to the approval of the Related Party Transaction Committee. The Company will continue to operate on a month to month basis until the lease is renewed.

The Company leases approximately 45,000 barrels in storage capacity for its TCEP division at CMT, located in Baytown, Texas. The monthly lease expense is \$45,000 and the lease expired in March 2011; however, the parties have agreed to an extension of the leases with same terms and conditions, through June 2012, other than an increase in the monthly lease expense to \$49,500 in consideration for an additional rental of 3,000 barrels of capacity; provided that the terms of such extension are still subject to the approval of the Related Party Transaction Committee. The Company will continue to operate on a month to month basis until the lease is renewed.

**VERTEX ENERGY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(UNAUDITED)**

**NOTE 3. CONCENTRATIONS, SIGNIFICANT CUSTOMERS, COMMITMENTS AND CONTINGENCIES**

The Company has concentrated credit risk for cash by maintaining deposits in one bank. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. From time to time during the six months ended June 30, 2012, the Company's cash balances exceeded the federally insured limits. No losses have been incurred relating to this concentration.

At June 30, 2012 and 2011 and for each of the six months then ended, the Company's revenues and receivables were comprised of the following customer concentrations:

	<b>2012</b>		<b>2011</b>	
	<b>% of Revenues</b>	<b>% of Receivables</b>	<b>% of Revenues</b>	<b>% of Receivables</b>
Customer 1	44%	35%	46%	0%
Customer 2	13%	17%	12%	0%
Customer 3	10%	17%	3%	30%
Customer 4	10%	0%	11%	34%
Customer 5	7%	2%	11%	27%

The Company purchases goods and services from two companies that represented 11% and 11% of total purchases for the six months ended June 30, 2012.

The Company has one debt facility available for use, of which there were no amounts outstanding as of June 30, 2012 and 2011, respectively. See note 4 for further details.

The Company's revenue, profitability and future rate of growth are substantially dependent on prevailing prices for petroleum-based products. Historically, the energy markets have been very volatile, and there can be no assurance that these prices will not be subject to wide fluctuations in the future. A substantial or extended decline in such prices could have a material adverse effect on the Company's financial position, results of operations, cash flows, and access to capital and on the quantities of petroleum-based product that the Company can economically produce.

The Company, in its normal course of business, is involved in various other claims and legal action. In the opinion of management, the outcome of these claims and actions will not have a material adverse impact upon the financial position of the Company.

We intend to take advantage of any potential tax benefits related to net operating losses ("NOLs") acquired as part of the Company's April 2009 merger with World Waste Technologies, Inc. ("World Waste"). As a result of the merger we acquired approximately \$42 million of net operating losses that may be used to offset taxable income generated by the Company in future periods.

It is possible that the Company may be unable to use these NOLs in their entirety. The extent to which the Company will be able to utilize these carry-forwards in future periods is subject to limitations based on a number of factors, including the number of shares issued within a three-year look-back period, whether the merger is deemed to be a change in control, whether there is deemed to be a continuity of World Waste's historical business, and the extent of the Company's subsequent income. As of December 31, 2011, the Company had utilized approximately \$6.6 million of these NOLs leaving approximately \$35.4 million of potential NOLs of which we expect to utilize approximately \$1.5 million for the six months ended June 30, 2012. The Company recorded a change in the valuation allowance as of June 30, 2012 for approximately \$510,000.



**VERTEX ENERGY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(UNAUDITED)**

**NOTE 4. NOTES PAYABLE**

In September 2010, the Company entered into a loan agreement and obtained a line of credit with Bank of America Merrill Lynch. The balance on the line of credit was \$0 and \$3,500,000 was available at June 30, 2012. On March 30, 2012 Bank of America renewed the line of credit through March 31, 2014. The loan agreement is guaranteed by CMT, a related party of the Company. The most restrictive covenants of the loan requires an interest coverage ratio of at least 1.5 to 1 and a Funded Debt to EBITDA ratio not to exceed 2 to 1. The Company believes it was in compliance of all aspects of the agreement at June 30, 2012.

The financing arrangement discussed above is secured by all of the assets of the Company. Management of Vertex Energy believes that with the financing arrangements, in addition to projected earnings, it will have sufficient liquidity to fund the Company's operations for the foreseeable future, although it may seek additional financing to fund acquisitions or other development in the future.

**NOTE 5. STOCK BASED COMPENSATION**

The stock based compensation cost that has been charged against income by the Company was \$85,172 and \$61,680 for the six months ended June 30, 2012 and 2011, respectively, for options previously awarded by the Company.

In June 2011, we extended our consulting agreement for investor relations services. The agreement was made effective as of April 15, 2011 and remained in effect until April 14, 2012 at which time it was renewed on a month to month basis. We agreed to compensate the consultant with a monthly fee and reimbursement of expenses incurred in connection with and pursuant to the agreement. The agreement may be terminated by either party at any time upon 30 days written notice. In addition the Company granted the consultant warrants to purchase 25,000 shares of our common stock, with cashless exercise rights, at an exercise price of \$1.75 per share. On May 10, 2011, the date of grant, 6,250 shares vested immediately and the remainder vest at 33 1/3% per year. The fair value of these warrants on the date of grant was \$11,201.

Stock option activity for the six months ended June 30, 2012 is summarized as follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (in Years)</u>	<u>Grant Date Fair Value</u>
Outstanding at December 31, 2011	3,073,334	\$ 5.46	7.00	\$ 990,995
Options exercised	(60,000)	(1.55)	-	(3,439)
Options expired	(194,167)	(1.55)	-	(11,126)
Outstanding at June 30, 2012	<u>2,819,167</u>	<u>\$ 5.81</u>	<u>6.49</u>	<u>\$ 976,430</u>
Vested at June 30, 2012	<u>2,018,861</u>	<u>\$ 7.49</u>	<u>5.85</u>	<u>\$ 547,835</u>
Exercisable at June 30, 2012	<u>2,018,861</u>	<u>\$ 7.49</u>	<u>5.85</u>	<u>\$ 547,835</u>

**VERTEX ENERGY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(UNAUDITED)**

A summary of the Company's stock warrant activity and related information for the six months ended June 30, 2012 is as follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (in Years)</u>	<u>Grant Date Fair Value</u>
Outstanding at December 31, 2011	1,245,311	\$ 12.48	1.41	\$ 142,065
Warrants exercised	(6,250)	(1.75)	(3.50)	(2,801)
Warrants cancelled/forfeited/expired	(11,377)	(25.00)	-	(652)
Warrants at June 30, 2012	<u>1,227,684</u>	<u>\$ 12.42</u>	<u>1.16</u>	<u>\$ 138,612</u>
Vested at June 30, 2012	<u>1,196,507</u>	<u>\$ 12.73</u>	<u>1.14</u>	<u>\$ 130,581</u>
Exercisable at June 30, 2012	<u>1,196,507</u>	<u>\$ 12.73</u>	<u>1.14</u>	<u>\$ 130,581</u>

**NOTE 6. EARNINGS (LOSS) PER SHARE**

Basic earnings per share includes no dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the periods presented. The calculation of basic earnings per share for the six months ended June 30, 2012 includes the weighted average of common shares outstanding. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity, such as convertible preferred stock, stock options, warrants or convertible securities. The calculation of diluted earnings per share for the six months ended June 30, 2012 does not include options to purchase 1,769,869 shares and warrants to purchase 1,065,203 shares due to their anti-dilutive effect.

The following is a reconciliation of the numerator and denominator for basic and diluted earnings per share for the six months ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
<b>Basic Earnings per Share</b>		
Numerator:		
Income available to common shareholders	<u>\$ 1,415,248</u>	<u>\$ 2,606,836</u>
Denominator:		
Weighted-average shares outstanding	<u>9,781,851</u>	<u>8,487,392</u>
Basic earnings per share	<u>\$ 0.14</u>	<u>\$ 0.31</u>

**VERTEX ENERGY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(UNAUDITED)**

**Diluted Earnings per Share**

Numerator:		
Income	<u>\$ 1,415,248</u>	<u>\$ 2,606,836</u>
Denominator:		
Weighted-average shares outstanding	9,781,851	8,487,392
Effect of dilutive securities		
Stock options and warrants	1,211,779	822,346
Preferred stock	<u>3,211,328</u>	<u>4,580,161</u>
Diluted weighted-average shares outstanding	<u>14,204,958</u>	<u>13,889,899</u>
Diluted earnings per share	<u>\$ 0.10</u>	<u>\$ 0.19</u>

**NOTE 7. COMMON STOCK**

The total number of authorized shares of the Company's common stock is 750,000,000 shares, \$0.001 par value per share. As of June 30, 2012, there were 10,685,322 common shares issued and outstanding.

During the six months ending June 30, 2012 there were 1,215,311 shares of the Company's Series A Preferred Stock converted into the Company's common stock and warrants and options to purchase 66,250 shares of the Company's common stock were exercised for cash proceeds of \$80,687 and the cancellation (in a cashless exercise) of \$23,250 of the Company's common stock (11,165).

**NOTE 8. PREFERRED STOCK**

The total number of authorized shares of the Company's preferred stock is 50,000,000 shares, \$0.001 par value per share. The total number of designated shares of the Company's Series A Preferred Stock is 5,000,000 ("Series A Preferred"). The total number of designated shares of the Company's Series B Preferred Stock is 2,000,000. As of June 30, 2012, there were 3,211,328 shares of Series A Preferred Stock issued and outstanding and no Series B Preferred shares issued and outstanding.

**NOTE 9. LICENSING AGREEMENT**

The Company operates under an operating and licensing agreement with a related party that is majority-owned and controlled by the Company's Chief Executive Officer and Chairman, Benjamin P. Cowart, that provides for an irrevocable, non-transferable, royalty-free, perpetual right to use TCEP to re-refine certain used oil feedstock and associated operations of this technology on a global basis. This includes the right to utilize the technology in any future production facilities built by the Company. If the related entity is unable to continue operations, the Company would not have a source of its TCEP products to sell to customers, which could negatively impact sales. The Company must approve any research and development costs that are performed by the related party and this may affect the related party's ability to maintain technological feasibility of the technology which could impact the value of the license. The Company will continue to make expenditures on the development of the process in the foreseeable future, which could be significant. We believe the license is technologically feasible; however, we believe we can make improvements that will enhance the TCEP process and design.

The initial valuation of the license was based upon the cost to acquire the use of TCEP and its processes. It will be assessed over time for changes in the valuation. Additional development costs capitalized during the six months ended June 30, 2012 and 2011 were \$183,558 and \$194,726, respectively. The Company is amortizing the value of the license agreement over a fifteen year period. Amortization expense was \$71,114 and \$70,866 for the six months ending June 30, 2012 and 2011, respectively. No indications of impairment of the license existed as of June 30, 2012.

**VERTEX ENERGY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012**  
**(UNAUDITED)**

**NOTE 10. SEGMENT REPORTING**

The Company's reportable segments include the Black Oil and Refining & Marketing divisions. Segment information for the six months ended June 30, 2012 and 2011, are as follows:

**SIX MONTHS ENDED JUNE 30, 2012**

	<u>Black Oil</u>	<u>Refining &amp; Marketing</u>	<u>Total</u>
Revenues	\$ 18,524,464	\$ 47,596,668	\$ 66,121,132
Income from operations	\$ 571,715	\$ 950,116	\$ 1,521,831
Total Assets	\$ 8,813,701	\$ 10,188,592	\$ 19,002,293

**SIX MONTHS ENDED JUNE 30, 2011**

	<u>Black Oil</u>	<u>Refining &amp; Marketing</u>	<u>Total</u>
Revenues	\$ 8,848,149	\$ 39,251,614	\$ 48,099,763
Income from operations	\$ 39,632	\$ 2,664,111	\$ 2,703,743

**THREE MONTHS ENDED JUNE 30, 2012**

	<u>Black Oil</u>	<u>Refining &amp; Marketing</u>	<u>Total</u>
Revenues	\$ 9,924,088	\$ 21,369,105	\$ 31,293,193
Income (loss) from operations	\$ 249,502	\$ (417,988)	\$ (168,486)

**THREE MONTHS ENDED JUNE 30, 2011**

	<u>Black Oil</u>	<u>Refining &amp; Marketing</u>	<u>Total</u>
Revenues	\$ 4,446,043	\$ 23,344,817	\$ 27,790,860
Income from operations	\$ 37,630	\$ 1,421,272	\$ 1,458,902

**NOTE 11. SUBSEQUENT EVENTS**

Subsequent to June 30, 2012, the available credit on the Line of Credit is \$3,500,000. As of August 13, 2012, the outstanding balance drawn on the line of credit is \$0 leaving an available balance for drawdowns of \$3,500,000.

Subsequent to the six months ended June 30, 2012 and through August 3, 2012, a total of 60,132 shares of the Company's Series A Preferred Stock were converted into 60,132 shares of our common stock on a one-for-one basis.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In some cases, you can identify forward-looking statements by the following words: “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “ongoing,” “plan,” “potential,” “predict,” “project,” “should,” or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. Forward-looking statements are not a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time the statements are made and involve known and unknown risks, uncertainties and other factors that may cause our results, levels of activity, performance or achievements to be materially different from the information expressed or implied by the forward-looking statements in this Report. These factors include:

- the level of competition in our industry and our ability to compete;
- our ability to respond to changes in our industry;
- the loss of key personnel or failure to attract, integrate and retain additional personnel;
- our ability to protect our intellectual property and not infringe on others' intellectual property;
- our ability to scale our business;
- our ability to maintain supplier relationships and obtain adequate supplies of feedstocks;
- our ability to obtain and retain customers;
- our ability to produce our products at competitive rates;
- our ability to execute our business strategy in a very competitive environment;
- trends in and the market for and the price of oil and gas and alternative energy sources;
- our ability to maintain our relationship with KMTEX, Ltd.;
- the impact of competitive services and products;
- changes in environmental and other laws and regulations;
- economic downturns both in the United States and globally;
- risk of increased regulation of our operations and products;
- negative publicity;
- disruptions in the infrastructure that the Company and its partners rely on;
- an inability to identify attractive acquisition opportunities, successfully negotiate acquisition terms or effectively integrate acquired companies or businesses;
- interruptions at our facilities;
- the fact that Cedar Marine Terminal may license the Thermal Chemical Extraction Process to third parties at the Baytown, Texas facility or sell the Thermal Chemical Extraction Process technology, which could have an adverse effect on our business;
- unexpected changes in our anticipated capital expenditures resulting from unforeseen required maintenance, repairs, or upgrades;
- our ability to effectively manage our growth;
- the lack of capital available on acceptable terms to finance our continued growth; and
- other risk factors included under “Risk Factors” in our Annual Report on Form 10-K.

You should read the matters described in “Risk Factors” disclosed in the Company's Annual Report on Form 10-K, filed with the Commission on March 29, 2012, and the other cautionary statements made in this Report as being applicable to all related forward-looking statements wherever they appear in this Report. We cannot assure you that the forward-looking statements in this Report will prove to be accurate and therefore prospective investors are encouraged not to place undue reliance on forward-looking statements. Other than as required by law, we undertake no obligation to update or revise these forward-looking statements, even though our situation may change in the future.

Please see the “Glossary of Selected Terms” incorporated by reference hereto as Exhibit 99.1, for a list of abbreviations and definitions used throughout this Report.

In this Quarterly Report on Form 10-Q, we may rely on and refer to information regarding the refining, re-refining, used oil and oil and gas industries in general from market research reports, analyst reports and other publicly available information. Although we believe that this information is reliable, we cannot guarantee the accuracy and completeness of this information, and we have not independently verified any of it.

### **Corporate History of the Registrant:**

Vertex Energy, Inc. (the "Company," "we," "us," and "Vertex") was formed as a Nevada corporation on May 14, 2008. Pursuant to an Amended and Restated Agreement and Plan of Merger dated May 19, 2008, by and between Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), a Texas limited partnership ("Vertex LP"), us, World Waste Technologies, Inc., a California corporation ("WWT" or "World Waste"), Vertex Merger Sub, LLC, a California limited liability company and our wholly-owned subsidiary ("Merger Subsidiary"), and Benjamin P. Cowart, our Chief Executive Officer, as agent for our shareholders (as amended from time to time, the "Merger Agreement"). Effective on April 16, 2009, World Waste merged with and into Merger Subsidiary, with Merger Subsidiary continuing as the surviving corporation and becoming our wholly-owned subsidiary (the "Merger"). In connection with the Merger, (i) each outstanding share of World Waste common stock was cancelled and exchanged for 0.10 shares of our common stock; (ii) each outstanding share of World Waste Series A preferred stock was cancelled and exchanged for 0.4062 shares of our Series A preferred stock; and (iii) each outstanding share of World Waste Series B preferred stock was cancelled and exchanged for 11.651 shares of our Series A preferred stock.

Additionally, as a result of the Merger, as the successor entity of World Waste, we assumed World Waste's filing obligations with the Securities and Exchange Commission and our common stock began trading on the Over-The-Counter Bulletin Board under the symbol "VTNR.OB" effective May 4, 2009. The previous trading symbol on the Over-The-Counter Bulletin Board was "WDWT.OB". Finally, as a result of the Merger, the common stock of World Waste was effectively reversed one for ten (10) as a result of the exchange ratios set forth in the Merger, and unless otherwise noted, the impact of such effective reverse stock split, created by the exchange ratio set forth above, is retroactively reflected throughout this report. Effective July 23, 2012, we were automatically delisted from the Over-The-Counter Bulletin Board due to the fact that no market maker quoted our common stock for a period of more than 4 days. We may take steps in the future to re-quote our common stock on the Over-The-Counter Bulletin Board. Our common stock currently trades on the OTCQB market.

### **Description of Business Activities:**

We are an environmental services company that recycles industrial waste streams and off-specification commercial chemical products. Our primary focus is recycling used motor oil and other petroleum by-products. We purchase these wastes from an established network of local and regional collectors and generators. We manage the transport, storage and delivery of the aggregated feedstock and product streams to end users. Our Company operates in two divisions. Our Black Oil division aggregates used motor oil from third-party collectors and sells used oil to our customers for use as a feedstock or replacement fuel for industrial burners. Our Refining and Marketing division aggregates and manages the re-refinement of used motor oil and other petroleum by-products and sells the re-refined products to our customers.

#### *Black Oil Division*

Our Black Oil division, which has been in business since 2001, aggregates and sells used motor oil. We have a network of approximately 50 suppliers that collect used oil from businesses such as oil change service stations, automotive repair shops, manufacturing facilities, petroleum refineries, and petrochemical manufacturing operations. We purchase the used oil from collectors and manage the logistics of transport, storage and delivery to our customers. Typically, we sell used oil in bulk to ensure efficient delivery by truck, rail, or barge. In many cases, we have contractual purchase and sale agreements with our suppliers and customers, respectively. We believe these contracts are beneficial to all parties involved because it ensures that a minimum volume is purchased from collectors, a minimum volume is sold to our customers, and we are insulated from inventory risk by a spread between the costs to acquire used oil and the revenues received from the sale and delivery of used oil.

### *Refining and Marketing Division*

Our Refining and Marketing division, which has been in business since 2004, aggregates used motor oil, petroleum distillates, transmix and other off-specification chemical products. These feedstock streams are purchased from pipeline operators, refineries, chemical processing facilities and third-party providers. We have toll-based processing agreements and/or understandings in place with Cedar Marine Terminal and KMTEX, Ltd. (“KMTEX”) to re-refine these feedstock streams, under our direction, into various end products that we specify. Cedar Marine Terminal is a related party and uses a proprietary Thermal Chemical Extraction Process (“TCEP”) technology to re-refine used oil into marine fuel cutterstock and a higher-value feedstock for further processing. KMTEX uses industry standard processing technologies to re-refine our feedstocks into pygas, gasoline blendstock and marine fuel cutterstock. We sell all of our re-refined products directly to end-customers or to processing facilities for further refinement.

We currently provide our services in 13 states, primarily in the Gulf Coast and Central Midwest regions of the United States. During the six month period ending June 30, 2012, we aggregated approximately 27.4 million gallons of used motor oil and other petroleum by-product feedstocks and managed the re-refining of approximately 10.7 million gallons of used motor oil with our proprietary licensed TCEP process and through our third party processing agreement.

### **Biomass Renewable Energy**

We are also continuing to work on joint development commercial projects which focus on the separation of municipal solid waste into feedstocks for energy production. We are very selective in choosing opportunities that we believe will result in value for the shareholders of Vertex. We can provide no assurance that the ongoing venture will successfully bring any projects to a point of financing or successful construction and operation.

### **Reliance on Contracts and Relationships; Currently a Low Capital Intensive Business**

We currently have no significant capital assets and instead contract on a fee-paid basis for the use of all assets we deem to be necessary to conduct our operations, from either independent third-parties or related-parties, pursuant to the License and Operating Agreement, described below, and other related party agreements described in greater detail in our Report on Form 10-K, filed with the Commission on March 29, 2012. These assets are made available to us at market rates which are periodically reviewed by the Related Party Transaction Committee of the Company’s Board of Directors. Our management has chosen to contract for the use of assets rather than purchase or build and own them in order to provide flexibility in the Company’s capital equipment requirements in the event there is a need for more or less capacity due to rapid growth or contraction in the future. We expect to continue to rely on contracts for access to assets moving forward, to avoid the initial capital expenditures that would be required to build our own facilities. However, we may decide to build our own facilities in the future, which would require significant capital expenditures.

We also have an understanding in place with KMTEX, pursuant to which KMTEX has agreed to process feedstock of certain petroleum distillates, which we provide to KMTEX, into more valuable feedstocks, including pygas, gasoline blend stock and cutterstock, which agreement expired on June 30, 2011, provided that Vertex believes that it will be able to renew or extend such agreement subsequent to the date of this Report as the parties have continued to operate under the terms of the agreement subsequent to its expiration. We are in discussions with KMTEX to extend or renew this agreement and have no reason to believe such agreement will not be extended or renewed. In connection with and pursuant to the agreement, we pay KMTEX certain monthly tank rental fees, truck and rail car fees, and processing fees based on the weight of the material processed by KMTEX, as well as certain disposal fees and other fees.

## Operating and Licensing Agreement

In connection with the Merger and effective as of the effective date of the Merger, we entered into an Operating and Licensing Agreement (the "Operating Agreement") with Cedar Marine Terminals, L.P., a subsidiary of Vertex LP ("CMT"). CMT is controlled by Vertex LP, an entity which is majority-owned and controlled by our Chief Executive Officer and Chairman, Benjamin P. Cowart. Pursuant to the Operating Agreement, CMT agreed to provide services to us in connection with the operation of the Terminal run by CMT, and the operations of and use of the TCEP, in connection with a Terminaling Agreement by and between CMT and Vertex LP. Additionally, we have the right to use the first 33,000 monthly barrels of the capacity of the TCEP, pursuant to the terms of the Operating Agreement, with CMT being provided the right to use the next 20,000 barrels of capacity and any additional capacity allocated pro rata (based on the percentages above), subject to separate mutually agreeable allocations.

The Operating Agreement has a term expiring on February 28, 2017, and can be terminated (a) by the mutual consent of both parties, (b) with thirty days prior written notice, if any term of the agreement is breached, by the non-breaching party, or (c) at any time after the Capitalized License Costs (as defined below) are paid and Mr. Cowart's employment has been terminated by Vertex; provided that the parties intend for the rights granted pursuant to the License (defined below) to be perpetual.

In consideration for the services to be rendered pursuant to the Operating Agreement, we agreed to pay CMT its actual costs and expenses associated with providing such services, plus 10%, subject to a maximum price per gallon of \$0.40, subject to CMT meeting certain minimum volume requirements as provided in the agreement. The maximum price to be paid per gallon is subject to change based on the mutual agreement of both parties.

Pursuant to the Operating Agreement, we also have the right to a non-revocable, non-transferable, royalty-free, perpetual (except as provided in the agreement) license to use the technology associated with the operations of the thermal chemical extraction process (the "TCEP" and the "License") which we have fully paid for in the amount of \$2,444,917 (the "Capitalized License Costs"), in any market in the world (except at CMT's Baytown facility where it is non-exclusive).

We currently estimate the cost to construct a new, fully-functional, commercial facility with annual processing capacity of between 25 and 30 million gallons at another location would be approximately \$2.5 to \$5.0 million, which could fluctuate based on throughput capacity. The facility infrastructure would require additional capitalized expenditures which would depend on the location and site specifics of the facility.

## Strategy and Plan of Operations

The Principal elements of our strategy include:

- *Grow our Core Business.* Our focus is to continue to supply used motor oil and other petroleum by-product feedstock, as well as our re-refined products to existing customers and to cultivate additional feedstock supply volume by expanding relationships with existing suppliers and developing new supplier relationships. We will seek to maintain good relations with existing suppliers, customers and vendors and the high levels of customer service necessary to maintain these businesses. We also plan to seek to develop relationships with additional re-refining facilities to serve as such facilities' primary and exclusive feedstock provider.
- *Re-Refine Higher Value End Products.* We intend to develop, lease, or acquire technologies to re-refine our feedstock supply into higher-value end products, including assets or technologies which complement TCEP. Currently, we are using TCEP to re-refine used oil feedstock into cutterstock for use in the marine fuel market. We believe that the expansion of TCEP facilities and our technology, and investments in additional technologies, will enable us to upgrade feedstock into end products, including lubricating base oil, that command higher market prices than the current re-refined products we produce.



- *Expand TCEP Re-Refinement Capacity.* We intend to expand our licensed TCEP capacity by building our own TCEP facilities to re-refine feedstock. We believe the TCEP process has a distinct competitive advantage over conventional re-refining technology because it produces a high-quality, fuel oil product, and the capital expenditures required to build a TCEP processing plant are significantly lower than a comparable conventional re-refining facility. By continuing the transition from our historical role as a value-added logistics provider to operating as a re-refiner, we believe we will be able to leverage our existing feedstock supply network and aggregation capabilities to upgrade a larger percentage of our feedstock inventory into higher value end products which we believe should drive increased revenue and gross margins. We intend to build TCEP facilities near the geographic location of substantial feedstock sources where we have relationships with through our aggregation business. By establishing TCEP facilities near proven feedstock sources, we seek to lower our transportation costs and lower the risk of operating plants at low capacity.
- *Pursue Selective Strategic Relationships Or Acquisitions.* We plan to grow market share by consolidating feedstock supply through partnering with or acquiring collection and aggregation assets. Such acquisitions and/or partnerships could increase our revenue and provide better control over the quality and quantity of feedstock available for resale and/or upgrading as well as providing additional locations for the implementation of TCEP.
- *Alternative Energy Project Development.* We will continue to evaluate and potentially pursue various alternative energy project development opportunities. These opportunities may be a continuation of the projects sourced originally by World Waste and/or may include new projects initiated by us.

Additionally, the Board of Directors has previously formed a sub-committee of the Related Party Transaction Committee to review a potential acquisition of certain assets and/or business units related to Vertex LP, which is a related party, controlled by Benjamin P. Cowart, our largest shareholder, President and Director. As part of the Company's merger transaction with World Waste Technologies, Inc. and Vertex LP, which closed on April 16, 2009, the Company was provided (1) a right of first refusal to match any third-party offer to purchase Vertex LP or its related entities (collectively the "Vertex LP Entities") on the terms and conditions set forth in such offer; and (2) the option, exercisable in our sole discretion any time after the 18-month anniversary of the closing of the merger (which date was October 16, 2010) and so long as Mr. Cowart is employed by the Company, to purchase all or any part of the outstanding stock or assets of any of the Vertex LP Entities owned by Vertex LP or VTX, Inc. (its general partner, which is also controlled by Mr. Cowart), at a price based on an independent third-party valuation and appraisal of the fair market value of such Vertex LP Entity.

Pursuant to the Merger Agreement, the Company formed the Related Party Transaction Committee which is required to include at least two "independent directors" (defined as any individuals who do not beneficially own more than 5% of the outstanding voting shares of the Company, are not employed by, or officers of the Company or any entity related to Mr. Cowart, are not directors or managers of any such company, are not family members of Mr. Cowart, and would qualify as "Independent Directors" as defined in the rules and regulations of the New York Stock Exchange). The Related Party Transaction Committee is charged with the review and pre-approval of any and all related party transactions, including between Vertex and Vertex LP, Mr. Cowart, or any other company or individual which may be affiliated with Mr. Cowart. The recently formed sub-committee of the Related Party Transaction Committee including David Phillips, Dan Borgen and John Pimentel, will review and advise the Related Party Transaction Committee and the Board of Directors in connection with the potential exercise by the Company of the Right of First Refusal.

In June 2012, the Company and Vertex LP entered into a preliminary, non-binding Letter of Intent relating to the proposed acquisition of certain or substantially all of the Vertex LP Entities, their assets and/or operations (the "Potential Vertex LP Acquisition"). Currently, the Company and Vertex LP are negotiating the terms and conditions of the Potential Vertex LP Acquisition, provided that at this time we can provide no assurances that definitive terms can be agreed upon or that such Potential Vertex LP Acquisition will be consummated. Assuming such transaction is consummated, such transaction may include the Company assuming, acquiring and/or incurring substantial amounts of debt or liabilities; the payment of substantial cash consideration to Vertex LP or its owners; and/or the issuance of significant non-cash consideration consisting of preferred stock, shares of our common stock or warrants to purchase shares of our common stock to Vertex LP or its owners, which may result in substantial dilution of the ownership interests of existing shareholders and may significantly dilute the Company's common stock book value. Such issuances may also serve to enhance existing management's ability to maintain control of the Company because the shares may be issued to parties or entities committed to supporting existing management. Any definitive agreements or understandings are subject to the approval of the management, the owners of the Vertex LP Entities, and the Company's Related Party Transaction Committee. In the event the Company enters into definitive documents in connection with the Potential Vertex LP Acquisition, the Company plans to file a Form 8-K announcing the terms of such transaction.

## RESULTS OF OPERATIONS

### Description of Material Financial Line Items:

#### *Revenues*

We generate revenues from two existing operating divisions as follows:

**BLACK OIL** - Revenues for our Black Oil division are comprised primarily of feedstock sales (used motor oil) which are purchased from a network of local and regional suppliers. Volumes are consolidated for efficient delivery and then sold to third-party re-refiners and fuel oil blenders for the export market.

**REFINING AND MARKETING** - The Refining and Marketing division generates revenues relating to the sales of finished products. The Refining and Marketing division gathers hydrocarbon streams in the form of petroleum distillates, transmix and other chemical products that have become off-specification during the transportation or refining process. These feedstock streams are purchased from pipeline operators, refineries, chemical processing facilities and third-party providers, and then processed at a third-party facility under our direction. The end products are typically three distillate petroleum streams (gasoline blendstock, pygas and fuel oil cutterstock), which are sold to major oil companies or to large petroleum trading and blending companies. The end products are delivered by barge and truck to customers. In addition, the Refining and Marketing division purchases black oil which is then re-refined through TCEP. The finished product is then sold by barge as a fuel oil cutterstock and a feedstock component for major refineries.

Our revenues are affected by changes in various commodity prices including crude oil, natural gas and #6 oil.

#### Cost of Revenues

BLACK OIL - Cost of revenues for our Black Oil division are comprised primarily of feedstock purchases from a network of providers. Other cost of revenues include transportation costs incurred from third parties, purchasing and receiving costs, analytical assessments, brokerage fees and commissions, surveying and storage costs.

REFINING AND MARKETING - The Refining and Marketing division incurs cost of revenues relating to the purchase of feedstock, purchasing and receiving costs, and inspection and processing of the feedstock into gasoline blendstock, pygas and fuel oil cutter by a third party. Cost of revenues also includes broker's fees, inspection and transportation costs.

Our cost of revenues are affected by changes in various commodity indices, including crude oil, natural gas and #6 oil. For example, if the price for crude oil increases, the cost of solvent additives used in the production of blended oil products, and fuel cost for transportation cost from third party providers will generally increase. Similarly, if the price of crude oil falls, these costs may also decline.

#### General and Administrative Expenses

Our general and administrative expenses consist primarily of salaries and other employee-related benefits for executive, administrative, legal, financial and information technology personnel, as well as outsourced and professional services, rent, utilities, and related expenses at our headquarters, as well as certain taxes.

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2012 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2011

Set forth below are our results of operations for the three months ended June 30, 2012, as compared to the same period in 2011. In the comparative tables below, increases in revenue/income or decreases in expense (favorable variances) are shown without parentheses while decreases in revenue/income or increases in expense (unfavorable variances) are shown with parentheses in the "\$ Change" and "% Change" columns.

	Three Months Ended June		\$ Change	% Change
	2012	2011		
Revenues	\$ 31,293,193	\$ 27,790,860	\$ 3,502,333	13%
Cost of Revenues	30,542,452	25,325,275	(5,217,177)	(21)%
Gross Profit	750,741	2,465,585	(1,714,844)	(70)%
Selling, general and administrative expenses	919,227	1,006,683	87,456	9%
Income (loss) from operations	(168,486)	1,458,902	(1,627,388)	(112)%
Other Income (expense)				
Interest Income	633	-	633	100%
Interest Expense	-	(25,177)	25,177	100%
Total other income (expense)	633	(25,177)	25,810	103%
Income (loss) before income taxes	(167,853)	1,433,725	(1,601,578)	(112)%
Income tax (expense) benefit	8,828	(22,986)	31,814	138%
Net income (loss)	\$ (159,025)	\$ 1,410,739	\$ (1,569,764)	(111)%

Each of our segments' gross profit during the three months ended June 30, 2012 and 2011 was as follows (increases in revenue and/or decreases in cost of revenues are shown without parentheses while decreases in revenue and/or increases in cost of revenues are shown with parentheses in the "\$ Change" and "% Change" columns):



**Three Months Ended June  
30,**

**Black Oil Segment**

	2012	2011	\$ Change	% Change
Total revenue	\$ 9,924,088	\$ 4,446,043	\$ 5,478,045	123%
Total cost of revenue	9,323,474	4,028,171	(5,295,303)	(131)%
Gross profit	<u>\$ 600,614</u>	<u>\$ 417,872</u>	<u>\$ 182,742</u>	<u>44%</u>

**Refining Segment**

Total revenue	\$ 21,369,105	\$ 23,344,817	\$ (1,975,712)	(8)%
Total cost of revenue	21,218,978	21,297,104	78,126	0%
Gross profit	<u>\$ 150,127</u>	<u>\$ 2,047,713</u>	<u>\$ (1,897,586)</u>	<u>(93)%</u>

Our revenues and cost of revenues are significantly impacted by fluctuations in commodity prices; decreases in commodity prices typically result in decreases in revenue and cost of revenues. Our gross profit is to a large extent a function of the market discount we are able to obtain in purchasing feedstock, as well as how efficiently management conducts operations.

Total revenues increased 13% for the second quarter of 2012, compared to the same period in 2011, due primarily to a 14% increase in overall volume during the second quarter of 2012, compared to the second quarter of 2011.

Despite increased volume and revenue for the three months ended June 30, 2012, our per barrel margin decreased 73% relative to the three months ended June 30, 2011. This decrease was a result of an increase in operational expenses related to terminaling, transporting and overall processing costs for all products. Additionally, certain feedstock inventory purchased during the first quarter of 2012 at the then prevailing benchmark prices, was not sold until the second quarter of 2012 after the benchmark prices had dropped.

Our Black Oil division's volume increased approximately 100% during the period ended June 30, 2012 compared to the same period in 2011. Overall volume for the Refining and Marketing division decreased 7% during the three month period ended June 30, 2012 as compared to the same period in 2011. This division experienced a decrease in production of 1% for its fuel oil cutter product for the three months ended June 30, 2012, compared to the same period in 2011. Our Pygas production decreased 47% for the three months ended June 30, 2012, compared to the same period in 2011. Our gasoline blendstock volumes increased 69% for the three months ended June 30, 2012 as compared to the same period in 2011. Our TCEP product experienced a 9% decrease in volume during the three months ended June 30, 2012, compared to the same period in 2011. In addition, commodity prices decreased approximately 4% for the three months ended June 30, 2012, compared to the same period in 2011. The average posting (U.S. Gulfcoast Residual Fuel No. 6 3%) for the three months ended June 30, 2012 decreased \$0.47 per barrel from a three month average of \$98.46 per barrel during the three months ended June 30, 2011 to \$97.99 per barrel during the three months ended June 30, 2012.

Overall gross profit decreased and our margin per barrel decreased approximately 73%. These margin declines were a result of a sharp decline in commodity prices from the first quarter of 2012 to the second quarter of 2012, which were exacerbated by the Company carrying feedstock inventory from the first quarter that did not sell until the second quarter after commodity prices had dropped. The decrease in margins was also partly due to certain contractual obligations that the Company had to meet as well as increased operational costs. The Company views these as one-time events and does not consider these situations to be ongoing.

The contracted TCEP technology generated revenues of \$12,384,692 during the three months ended June 30, 2012, with cost of revenues of \$12,780,087, producing a gross loss of \$395,395. The per barrel margin for our TCEP product was down 169% as compared to the average margin during the previous five quarters. This decrease was a result of two key components of our cost of goods sold; raw materials or feedstock and operating costs. As discussed our margins are impacted by what we are able to pay for raw materials and what we are able to sell our finished products for. The month to month market volatility for U.S. Gulfcoast Residual Fuel No. 6 3% during the three months ended June 30, 2012 was (24%) vs. 4% during the same period during 2011. Operating expenses during the three months ended June 30, 2012 as compared to the previous five quarters experienced an increase of 18%. Increased operating expenses contributed 40% of the decrease in margin, and market volatility contributed 60% toward the decline in our overall TCEP margin. We currently operate this technology from Vertex LP pursuant to a perpetual license as described above under "Operating and Licensing Agreement."

The following table sets forth the high and low spot prices during the first six months of 2011 for our key benchmarks.

<b>Benchmark</b>	<b>High</b>	<b>Date</b>	<b>Low</b>	<b>Date</b>
U.S. Gulfcoast No. 2 Waterborne (dollars per gallon)	\$ 3.30	April 8	\$ 2.44	January 4
U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon)	\$ 3.52	May 9	\$ 2.33	January 25
U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel)	\$ 104.30	April 29	\$ 76.70	January 4
NYMEX Crude oil (dollars per barrel)	\$ 113.93	April 29	\$ 84.32	February 15

*Reported in Platt's US Marketscan (Gulf Coast)*

The following table sets forth the high and low spot prices during the first six months of 2012 for our key benchmarks.

<b>Benchmark</b>	<b>High</b>	<b>Date</b>	<b>Low</b>	<b>Date</b>
U.S. Gulfcoast No. 2 Waterborne (dollars per gallon)	\$ 3.27	February 24	\$ 2.54	June 28
U.S. Gulfcoast Unleaded 87 Waterborne (dollars per gallon)	\$ 3.43	April 2	\$ 2.49	June 28
U.S. Gulfcoast Residual Fuel No. 6 3% (dollars per barrel)	\$ 114.35	March 1	\$ 82.60	June 21
NYMEX Crude oil (dollars per barrel)	\$ 109.77	February 24	\$ 77.69	June 28

*Reported in Platt's US Marketscan (Gulf Coast)*

We have seen an increase during the first three months of 2012 followed by a sharp decrease in each of the benchmark commodities we track through June 2012.

Our margins are a function of the difference between what we are able to pay for raw materials and the market prices for the range of products produced. The various petroleum products produced are typically a function of Crude Oil indices and are quoted on multiple exchanges such as the New York Mercantile Exchange ("NYMEX"). These prices are determined by a global market and are subject to external factors over which the Company has no control, including but not limited to supply/demand, weather, politics, and global/regional inventory levels. As such, we cannot provide any assurances regarding results of operations for any future periods, as numerous factors outside of our control affect the prices paid for raw materials and the prices (for the most part keyed to the NYMEX) that can be charged for such products. Additionally, for the near term, results of operations will be subject to further uncertainty, as the global markets and exchanges, including the NYMEX, continue to experience volatility.

During the three months ended June 30, 2012, gross profit decreased 70% from the same period in 2011, primarily due to declines in commodity prices and increases in operating expenses. In addition, during the three month period ended June 30, 2012, two of the re-refineries we provide feedstock to had operational difficulties which temporarily reduced demand for our Black Oil Division services which had a negative impact on our revenue and gross profit.

We had selling, general and administrative expenses of \$919,227 for the three months ended June 30, 2012, compared to \$1,006,683 from the prior year's period, a decrease of \$87,456 or 9% from the prior period. We had a net loss of \$159,025 for the three months ended June 30, 2012, compared to net income of \$1,410,739 for the three months ended June 30, 2011, a decrease in net income of \$1,569,764 or 111% from the prior year's period. The decrease in net income was mainly due to increased operating costs and a decrease in commodity prices. As we've noted in all of our filings, our margins are a function of the difference between what we are able to pay for raw materials and the market prices for the range of products we produce. As an example one of the key benchmarks we use to buy and sell products (U.S. Gulfoast Residual Fuel No. 6 3%) during the first quarter of 2012 was at a high of \$114.35 per barrel and then during the second quarter of 2012 was at a low of \$82.60 per barrel. This 28% decline in product value in a short period of time can have a major impact on our results of operations as seen during the three months ended June 30, 2012. A 70% decrease in gross profit was offset by the 9% decrease in selling, general and administrative expenses incurred during the period ended June 30, 2012, compared to the three months ended June 30, 2011.

### RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2012 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2011

Set forth below are our results of operations for the six months ended June 30, 2012, as compared to the same period in 2011. In the comparative tables below, increases in revenue/income or decreases in expense (favorable variances) are shown without parentheses while decreases in revenue/income or increases in expense (unfavorable variances) are shown with parentheses in the "\$ Change" and "% Change" columns.

	<u>Six Months Ended June 30,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2012</u>	<u>2011</u>		
Revenues	\$ 66,121,132	\$ 48,099,763	\$ 18,021,369	37%
Cost of Revenues	62,485,327	43,363,282	(19,122,045)	(44)%
Gross Profit	3,635,805	4,736,481	(1,100,676)	(23)%
Selling, general and administrative expenses	2,113,974	2,032,738	(81,236)	(4)%
Income from operations	1,521,831	2,703,743	(1,181,912)	(44)%
Other Income (expense)				
Interest Income	633	-	633	100%
Interest Expense	(44)	(54,218)	54,174	100%
Total other income (expense)	589	(54,218)	54,807	101%
Income before income taxes	1,522,420	2,649,525	(1,127,105)	(43)%
Income tax (expense) benefit	(107,172)	(42,689)	(64,483)	(151)%
Net income	\$ 1,415,248	\$ 2,606,836	\$ (1,191,588)	(46)%

Each of our segments' gross profit during the six months ended June 30, 2012 and 2011 was as follows (increases in revenue and/or decreases in cost of revenues are shown without parentheses while decreases in revenue and/or increases in cost of revenues are shown with parentheses in the "\$ Change" and "% Change" columns):

	<b>Six Months Ended June 30,</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>2012</b>	<b>2011</b>		
<b>Black Oil Segment</b>				
Total revenue	\$ 18,524,464	\$ 8,848,149	\$ 9,676,315	109%
Total cost of revenue	17,161,248	8,022,741	(9,138,507)	(114)%
Gross profit	<u>\$ 1,363,216</u>	<u>\$ 825,408</u>	<u>\$ 537,808</u>	<u>65%</u>
<b>Refining Segment</b>				
Total revenue	\$ 47,596,668	\$ 39,251,614	\$ 8,345,054	21%
Total cost of revenue	45,324,079	35,340,541	(9,983,538)	(28)%
Gross profit	<u>\$ 2,272,589</u>	<u>\$ 3,911,073</u>	<u>\$ (1,638,484)</u>	<u>(42)%</u>

Our revenues and cost of revenues are significantly impacted by fluctuations in commodity prices; decreases in commodity prices typically result in decreases in revenue and cost of revenues. Our gross profit is to a large extent a function of the market discount we are able to obtain in purchasing feedstock, as well as how efficiently management conducts operations.

Total revenues increased 37% for the six month period ended June 30, 2012, compared to the same period in 2011, due primarily to increases in volume and commodity prices during the six months ended June 30, 2012, compared to the prior period. The average posting (U.S. Gulfcoast Residual Fuel No. 6 3%) for the six months ended June 30, 2012 increased \$9.96 per barrel from a six month average of \$92.95 per barrel during the 2011 period to \$102.91 per barrel during the 2012 period. On average, prices we received for our products increased 6.5% for the six month period ended June 30, 2012, compared to the same period during 2011 which resulted in an \$18 million increase in revenue.

Our overall volume increased 24% for the six months ended June 30, 2012, while our per barrel margin decreased approximately 38% from the six months ended June 30, 2011. This decrease was a result of an increase in operational costs related to terminaling, transporting and overall processing costs for all products as well as eroding margins related to higher priced feedstock purchased during the first quarter of 2012 which carried over through inventory into the second quarter of 2012. Our Black Oil division's volume increased approximately 71% during the six months ended June 30, 2012 compared to the same period in 2011. While the volume in the Black Oil division increased, our overall margins decreased by not being able to move this volume through our TCEP process, which experienced extended downtime during the second quarter related to process repairs and enhancements, which process produces a higher margin finished product for the Company.



Our Refining and Marketing division experienced an increase in production of 8% for its fuel oil cutter product for the six months ended June 30, 2012, compared to the same period in 2011. Our TCEP product experienced a 13% increase in volume during the six months ended June 30, 2012, compared to the same period in 2011. In addition, on average the commodity prices our revenues are tied to increased approximately 6.5% for the six months ended June 30, 2012, compared to the same period in 2011. The average posting (U.S. Gulfcoast Residual Fuel No. 6 3%) for the six months ended June 30, 2012 increased \$9.95 per barrel from a six month average of \$92.95 per barrel during the six months ended June 30, 2011 to \$102.91 per barrel during the six months ended June 30, 2012 an 11% increase.

The contracted TCEP technology generated revenues of \$27,944,551 during the six months ended June 30, 2012, with cost of revenues of \$27,309,884, producing a gross profit of \$634,667. Due to the Company having the rights to license the use of the technology, its income from operations has been positively affected for the six months ended June 30, 2012. We currently operate this technology from Vertex LP pursuant to a perpetual license as described above under "Operating and Licensing Agreement."

Therefore, if the Company were not able to use the CMT facilities moving forward, the Company would be negatively impacted by its ability to compete in the marketplace, as it believes that in order to compete with its competitors, it may need the CMT facilities to produce higher valued products from Black Oil streams. Additionally, as our competitors bring new technologies to the marketplace, which will likely enable them to obtain higher values for the finished products created through their technologies from purchased black oil feedstock, they will be able to pay more for feedstock due to the additional value received from their finished product (i.e., as their margins increase, they are able to increase the prices they are willing to pay for feedstock). If CMT is not able to continue to refine the technology and gain efficiencies in their TCEP process, we could be negatively impacted by the ability of our competitors to bring new processes to market which compete with our processes as well as their ability to outbid us for feedstock supplies.

If we are unable to effectively compete with additional technologies brought to market by our competitors, our finished products could be worth less and if our competitors are willing to pay more for feedstock than we are, they could drive up prices, which would cause our revenues to decrease, and cause our cost of sales to increase, respectively. Additionally, if we are forced to pay more for feedstock, our cash flows will be negatively impacted and our margins will decrease.

Our Pygas production increased 22% for the six months ended June 30, 2012, compared to the same period in 2011 and commodity prices increased approximately 4% for our finished Pygas product for the six month period ended June 30, 2012, compared to the same period in 2011.

Our gasoline blendstock volumes decreased 12% for the six month period ended June 30, 2012 as compared to the same period in 2011. The overall increase in revenues associated with our Refining and Marketing division for the six month period ended June 30, 2012, compared to the same period in 2011, was due to increases in volume coupled with increased commodity prices during the six month period ended June 30, 2012. Overall volume for the Refining and Marketing division increased 10% during the six month period ended June 30, 2012 as compared to the same period in 2011. The increase in volumes and prices was offset by a decrease in overall gross profit relating to a decrease in our margin per barrel of approximately 47%, which was mainly a result of increasing commodity prices during the first quarter for much of our inventory that carried over into the second quarter which when then sold by us, subsequent to a sharp decline in commodity prices, had a negative impact on our margins. The decrease in margins was also partly due to certain contractual obligations that the Company had to meet as well as increased operational costs. Provided the Company is able to move product through the TCEP division, we believe our margins will be much improved during the three months ended September 30, 2012.

During the six month period ended June 30, 2012, gross profit decreased 23% from the same period in 2011, primarily due to declines in commodity prices along with increased operating costs of approximately 19%. In addition, during the six month period ended June 30, 2012, two of the re-refineries we provide feedstock to had operational difficulties which in turn had a negative impact on our revenue and gross profit.

We had selling, general and administrative expenses of \$2,113,974 for the six month period ended June 30, 2012, compared to \$2,032,738 from the prior year's period, an increase of \$81,236 or 4% from the prior period. We had net income of \$1,415,248 for the six month period ended June 30, 2012, compared to net income of \$2,606,836 for the same period in 2011, a decrease in net income of \$1,191,588 or 46% from the prior year's period. The decrease in net income was mainly due to increased operating costs and decreases in commodity prices. A 37% increase in revenues was offset by a 44% increase in cost of revenue, and a 4% increase in selling, general and administrative expenses incurred during the period ended June 30, 2012, compared to the six month period ended June 30, 2011.

### Liquidity and Capital Resources

The success of our current business operations is not dependent on extensive capital expenditures, but rather on relationships with feedstock suppliers and end-product customers, and on efficient management of overhead costs. Through these relationships, we have historically been able to achieve volume discounts in the procurement of our feedstock, thereby increasing the margins of our segments' operations. The resulting operating cash flow is crucial to the viability and growth of our existing business lines.

We had total assets of \$19,002,293 as of June 30, 2012 compared to \$16,733,971 at December 31, 2011. This increase was partially due to \$1,415,248 of net income which was generated during the six month period ended June 30, 2012 as well as a \$3,502,255 increase in cash and cash equivalents as of June 30, 2012, compared to December 31, 2011, along with the increase in our inventory of \$194,799 between June 30, 2012 and December 31, 2011. The increase in inventory is partly due to commodity pricing which increases the carrying value of our inventory. In addition there was a \$112,445 increase in the net value of the license for the TCEP technology (due to increased expenditures on such process offset by amortization on such asset), described below, all of which attributed to the increase in total assets as of June 30, 2012, compared to December 31, 2011.

Total current assets as of June 30, 2012 of \$14,889,706 consisted of cash and cash equivalents of \$4,177,443, accounts receivable, net, of \$3,778,844 accounts receivable-related party of \$200, inventory of \$6,603,579, and prepaid expenses of \$329,640. Long term assets consisted of fixed assets, net, of \$119,593, and a licensing agreement in the net amount of \$2,041,994, which represents the value of the Company's licensing agreement for the use of the thermal chemical extraction technology, net of amortization. As of June 30, 2012, an additional \$1,044,917 of development investments have been made to the TCEP and added to the original \$1.4 million license value. In addition as a result of the approximately \$36 million of net operating losses that may be used to offset taxable income generated by the Company in future periods, the Company has recorded a deferred federal income tax asset of \$1,951,000 and \$2,006,000 as of June 30, 2012 and December 31, 2011, respectively. The Company has fully paid CMT for the license for the TCEP as of the date of this filing. Our cash, accounts receivable, inventory and accounts payable fluctuate and are somewhat tied to one another based on the timing of our inventory cycles and sales.

We had total liabilities of \$8,083,688 as of June 30, 2012, compared to \$7,396,474 at December 31, 2011. This increase was largely due to the increase in commodity prices and product volume during the six month period ended June 30, 2012, which in turn increased the cost of the products we purchase and contributed to the increase in accounts payable and accrued expenses to \$7,232,662 as of June 30, 2012. At June 30, 2012, current liabilities consisted of accounts payable of \$7,232,662, and accounts payable – related parties of \$748,026. Accounts payable – related parties included amounts payable to CMT, H&H Oil Baytown, H&H Oil Austin and H&H Oil Corpus, which entities are majority-owned and controlled by our Chief Executive Officer and Chairman, Benjamin P. Cowart.

We had positive working capital of \$6,909,018 as of June 30, 2012. Excluding current liabilities to and current assets relating to related parties our working capital was \$7,656,844 as of June 30, 2012. We had positive working capital of \$5,353,780 as of December 31, 2011. Excluding current liabilities to related parties, our working capital was \$5,972,045 as of December 31, 2011. The \$1,555,238 improvement in working capital from December 31, 2011 to June 30, 2012 is due to the net income of \$1,415,248 which we generated for the six months ended June 30, 2012, the increased cash and cash equivalents of \$3,502,255, the increased inventory of \$194,799 (which increased total current assets), as well as the increase in our prepaid expenses of \$177,819 as of June 30, 2012, compared to December 31, 2011, offset by the increase of \$660,214 in accounts payable and accrued expenses.

Our future operating cash flows will vary based on a number of factors, many of which are beyond our control, including commodity prices, the cost of recovered oil, and the ability to turn our inventory. Other factors that have affected and are expected to continue to affect earnings and cash flow are transportation, processing, and storage costs. Over the long term, our operating cash flows will also be impacted by our ability to effectively manage our administrative and operating costs. Additionally, we may incur future capital expenditures related to new TCEP facilities.

In September 2010, the Company entered into a loan agreement with Bank of America Merrill Lynch ("Bank of America"). Pursuant to the loan agreement, Bank of America agreed to loan up to \$3,500,000 in the form of a revolving line of credit, which is expected to be used for feedstock purchases and general corporate purposes. The line of credit bears interest at the Bank of America LIBOR rate plus 3%, adjusted daily, and was due on September 16, 2011. On September 22, 2011, Bank of America provided an extension through December 31, 2011 on the Line of Credit and on December 19, 2011, Bank of America provided an additional extension through March 31, 2012. On March 30, 2012 we entered into the First Amendment To Loan Agreement which extended our agreement through March 31, 2014. We also agreed to certain affirmative and negative covenants in connection with our entry into the Loan Agreement, including, among other things, the requirement to maintain a ratio of (a) net income, plus income taxes and interest expense; to (b) interest expense, of at least 1.5 to 1, on a quarterly basis; (c) Funded Debt to EBITDA ratio not to exceed 2.00 to 1.00; and the prohibition, without the prior consent of Bank of America of the sale of any assets outside the normal course of business and/or the acquisition of any assets outside the normal course of business. As of June 30, 2012, the Company was in compliance with all of its covenants. As of June 30, 2012, we had not borrowed any funds under the Loan Agreement of which \$3,500,000 was available.

The financing arrangement discussed above is secured by all of the assets of the Company. The available amount is based on ratios of accounts receivable and inventory. The management of the Company believes that with the financing arrangement, in addition to projected earnings, it will have sufficient liquidity to fund the Company's operations for the foreseeable future, although it may seek additional financing to fund acquisitions or other development in the future.

Our re-refining business will require significant capital to design and construct any new facilities other than the existing facility in Baytown, Texas, owned by CMT. We have the right to use the existing facility in Baytown, Texas, pursuant to an Operating Agreement with CMT described above. We currently estimate that the cost to construct a new, fully functional full-scale commercial process at another location would be approximately \$2.5 to \$5.0 million, based on throughput capacity. The facility infrastructure would be an additional capitalized expenditure to these proposed process costs and would depend on the location and site specifics of the facility.

We believe that cash from ongoing operations and our working capital facility will be sufficient to satisfy our existing cash requirements. However, in order to implement our growth strategy, and pay our outstanding debts (as described above) we may need to secure additional financing in the future.

Additionally, as part of our ongoing efforts to maintain a capital structure that is closely aligned with what we believe to be the potential of our business and future growth, which is subject to cyclical changes in commodity prices, we will be exploring additional sources of external liquidity. The receptiveness of the capital markets to an offering of debt or equities cannot be assured and may be negatively impacted by, among other things, debt maturities, current market conditions, and potential stockholder dilution. The sale of additional securities, if undertaken by the Company and if accomplished, may result in dilution to our shareholders. We cannot assure you, however, that future financing will be available in amounts or on terms acceptable to us, or at all.

There is currently only a limited market for our common stock, and as such, we anticipate that such market will be illiquid, sporadic and subject to wide fluctuations in response to several factors moving forward, including, but not limited to:

- (1) actual or anticipated variations in our results of operations;
- (2) our ability or inability to generate new revenues; and
- (3) the number of shares in our public float.

Furthermore, because our common stock is traded on the OTCQB, our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. These market fluctuations, as well as general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Additionally, at present, we have a limited number of shares in our public float, and as a result, there could be extreme fluctuations in the price of our common stock.

We believe that our stock prices (bid, ask and closing prices) may be entirely arbitrary, may not relate to the actual value of the Company, and may not reflect the actual value of our common stock (and may reflect a lower value). Shareholders and potential investors in our common stock should exercise caution before making an investment in the Company, and should not rely on the publicly quoted or traded stock prices in determining our common stock value, but should instead determine the value of our common stock based on the information contained in the Company's public reports, industry information, and those business valuation methods commonly used to value private companies.

We may seek to explore the listing of our common stock on the NASDAQ, NYSE, or AMEX exchanges or another national securities exchange in the future. We believe that the listing of our securities on a national exchange will facilitate the Company's access to capital, from which certain acquisitions and capital investments might be financed. Until meeting the listing requirements of a national securities exchange and our Board of Directors determining such listing is in our best interests, we expect that our common stock will continue to be eligible to trade on the OTCQB (or the OTCBB assuming we choose to re-quote our common stock on the OTCBB) or on the "pink sheets," where our stockholders may find it more difficult to dispose of shares or obtain accurate quotations as to the market value of our common stock.

#### Cash flows for the six months ended June 30, 2012 compared to the six months ended June 30, 2011

	<b>Six Months Ended June 30,</b>	
	<u>2012</u>	<u>2011</u>
Beginning cash and cash equivalents	<u>\$ 675,188</u>	<u>\$ 744,313</u>
Net cash provided by (used in):		
Operating activities	3,611,456	2,005,013
Investing activities	(189,888)	(227,000)
Financing activities	<u>80,687</u>	<u>4,000</u>
Net increase in cash and cash equivalents	<u>3,502,255</u>	<u>1,782,013</u>
Ending cash and cash equivalents	<u><u>\$ 4,177,443</u></u>	<u><u>\$ 2,526,326</u></u>

Operating activities provided cash of \$3,611,456 for the six months ended June 30, 2012 as compared to providing \$2,005,013 of cash during the corresponding period in 2011. Our primary sources of liquidity are cash flows from our operations and the availability to borrow funds under our line of credit with Bank of America, as described above. The primary reasons for the increase in cash provided by operating activities are related to the net income of \$1,415,248, the increase in accounts payable of \$768,469, the \$1,657,162 decrease in accounts receivable, \$127,302 of increases in accounts payable-related parties, for the six months ended June 30, 2012 compared to the six months ended June 30, 2011, offset by increases in inventory of \$194,799 and \$177,819 in prepaid expenses, and a decrease of \$235,557 in deposits. Additionally, non-cash expense related to stock compensation expense provided \$85,172 of liquidity for the six months ended June 30, 2012 and depreciation and amortization contributed \$82,019 of net cash.

Investing activities used cash of \$189,888 for the six months ended June 30, 2012 as compared to having used \$227,000 of cash during the corresponding period in 2011. Investing activities for the six months ended June 30, 2012 are comprised of \$183,558 in cash payments related to the license of the TCEP and \$6,330 of purchase of fixed assets.

Financing activities provided \$80,687 during the six months ended June 30, 2012 resulting from proceeds from the exercise of common stock warrants.

### **Net Operating Losses**

We intend to take advantage of any potential tax benefits related to net operating losses (“NOLs”) acquired as part of the World Waste merger. As a result of the merger we acquired approximately \$42 million of net operating losses that may be used to offset taxable income generated by the Company in future periods.

It is possible that the Company may be unable to use these NOLs in their entirety. The extent to which the Company will be able to utilize these carry-forwards in future periods is subject to limitations based on a number of factors, including the number of shares issued within a three-year look-back period, whether the merger is deemed to be a change in control, whether there is deemed to be a continuity of World Waste’s historical business, and the extent of the Company’s subsequent income. As of December 31, 2011, the Company had utilized approximately \$6.6 million of these NOLs leaving approximately \$35.4 million of potential NOLs of which we expect to utilize approximately \$1.5 million for the six months ended June 30, 2012.

### **Critical Accounting Policies and Use of Estimates**

Our financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management regularly evaluates its estimates and judgments, including those related to revenue recognition, goodwill, intangible assets, long-lived assets valuation, and legal matters. Actual results may differ from these estimates.

The Company evaluates the carrying value and recoverability of its long-lived assets within the provisions of the FASB ASC regarding long-lived assets. It requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value.

*Revenue Recognition.* Revenue for each of the Company’s divisions is recognized when persuasive evidence of an arrangement exists, goods are delivered, sales price is determinable, and collection is reasonably assured. Revenue is recognized upon delivery by truck and railcar of feedstock to its re-refining customers and upon product leaving the Company’s terminal facilities via barge.

*Legal Matters.* Accruals are established for legal matters when, in our opinion, it is probable that a liability exists and the liability can be reasonably estimated. Actual expenses incurred in future periods can differ materially from accruals established.

#### *Stock Based Compensation*

The Company accounts for share-based expense and activity in accordance with FASB ASC Topic 718, which establishes accounting for equity instruments exchanged for services. Under this provision share-based compensation costs are measured at the grant date, based on the calculated fair value of the award, and are recognized as an expense over the employee's requisite service period, generally the vesting period of the equity grant.

Share-based payments to non-employees are measured at the grant date, based on the calculated fair value of the award, and are recognized as an expense over the service period, generally the vesting period of the equity grant. The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, expected option term, expected volatility of the stock over the option's expected term, risk-free interest rate over the option's expected term, and the expected annual dividend yield. The Company believes that the valuation technique and approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the stock options granted.

#### *Basic and Diluted Loss per Share*

Basic and diluted loss per share has been calculated based on the weighted average number of shares of common stock outstanding during the period.

#### *License Agreement Development Costs*

The Company capitalizes costs to improve any acquired intangible asset which is specifically identifiable, and has a definite life. All other costs are expensed as incurred.

#### *Income Taxes*

The Company accounts for income taxes in accordance with the FASB ASC Topic 740. The Company records a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and when temporary differences become deductible. The Company considers, among other available information, uncertainties surrounding the recoverability of deferred tax assets, scheduled reversals of deferred tax liabilities, projected future taxable income, and other matters in making this assessment.

#### *Recently Issued Accounting Pronouncements*

In May 2011, the provisions of ASC Topic 820, "Fair Value Measurement," were amended to clarify the application of existing fair value measurements and to change certain fair value measurement and disclosure requirements. Amendments that change measurement and disclosure requirements relate to (i) fair value measurement of financial instruments that are managed within a portfolio, (ii) application of premiums and discounts in a fair value measurement, and (iii) additional disclosures about fair value measurements categorized with Level 3 of the fair value hierarchy. These provisions are effective for the first interim or annual period beginning after December 31, 2011. The adoption of this guidance effective January 1, 2012, did not affect our financial position or results of operations, but may result in additional disclosure.

In December 2011, the provisions of ASC Topic 210, "Balance Sheet," were amended to require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of these arrangements on its financial position. The guidance requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. These provisions are effective for interim and annual reporting periods beginning on January 1, 2013. The adoption of this guidance effective January 1, 2013 will not affect our financial position or results of operations, but may result in additional disclosures.

## Market Risk

Our revenues and cost of revenues are affected by fluctuations in the value of energy related products. We attempt to mitigate much of the risk associated with the volatility of relevant commodity prices by using our knowledge of the market to obtain feedstock at attractive costs, by efficiently managing the logistics associated with our products, by turning our inventory over quickly, and by selling our products into markets where we believe we can achieve the greatest value. We believe that the current downward trend in natural gas prices coupled with increasing crude oil prices provides an attractive margin opportunity for our TCEP.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a “smaller reporting company,” as defined by Rule 229.10(f)(1).

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### Changes in Internal Control Over Financial Reporting

We regularly review our system of internal control over financial reporting to ensure we maintain an effective internal control environment. There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business.

On July 28, 2011, Buffalo Marine Service, Inc. (“Buffalo”) filed a complaint against Trafigura AG d/b/a Trafigura AG Inc. (“Trafigura”), KMTEX, Ltd. (“KMTEX”) and the Company in the United States District Court for the Southern District of Texas (Civil Action No. 4:11-cv-02544).

The complaint alleged that certain maritime liquid cargo transported by Buffalo (as operator of barges) was contaminated by Trafigura (who purchased products from the Company which were then transported on Buffalo’s barges) and /or KMTEX (who processes the Company’s products) and/or the Company (who sold certain products to Trafigura which were then transported on Buffalo’s barges). The causes of actions set forth in the complaint included Breach of Contract against Trafigura, Breach of Warranty against Trafigura, KMTEX and the Company, and Negligence/Gross Negligence by Trafigura, KMTEX (who processes the Company’s products), and the Company.

The total amount of damages claimed by Buffalo is not currently known. The Company has engaged legal counsel in the matter and filed an answer to the complaint denying Buffalo’s allegations. We intend to vigorously defend ourselves against Buffalo’s claims; however, at this stage of the litigation the outcome cannot be predicted with any degree of reasonable certainty.

We are not currently involved in legal proceedings, other than the complaint described above, that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations other than as described above. We may become involved in material legal proceedings in the future.

### Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the Company’s Annual Report on Form 10-K, filed with the Commission on March 29, 2012 and investors are encouraged to review such risk factors prior to making an investment in the Company.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the six months ended June 30, 2012, a total of 1,215,311 shares of the Company’s Series A Preferred Stock were converted into 1,215,311 shares of our common stock on a one-for-one basis. In addition, options to purchase 51,250 shares of the Company’s common stock were exercised for cash proceeds of \$80,687 and 51,250 shares of common stock were issued to the option holders in connection with such exercises. Finally, options to purchase 15,000 shares of common stock were exercised for a net of 3,835 shares of the Company’s common stock (when adjusting for a cashless exercise of such options and the payment, in shares of the Company’s common stock, of an aggregate exercise price of \$23,250 in connection with such exercises) and 3,835 shares of the Company’s common stock were issued to the option holder in connection with such exercises.

From July 1, 2012 and through August 3, 2012, a total of 60,132 shares of the Company’s Series A Preferred Stock were converted into 60,132 shares of our common stock on a one-for-one basis.

We claim an exemption from registration afforded by Section 3(a)(9) of the Securities Act of 1933, as amended (the “Act”), for the above conversions and cashless exercises, as the securities were exchanged by the Company with its existing security holders exclusively in transactions where no commission or other remuneration was paid or given directly or indirectly for soliciting such exchange and Section 4(2) of the Act for the cash exercises, since the issuances did not involve a public offering, the recipients took the securities for investment and not resale and we took appropriate measures to restrict transfer.



**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits****EXHIBIT NO. DESCRIPTION**

<b>EXHIBIT NO.</b>	<b>DESCRIPTION</b>
2.1(7)	Amended and Restated Agreement and Plan of Merger by and among World Waste Technologies, Inc., Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), Vertex Energy, Inc., Vertex Merger Sub, LLC and Benjamin P. Cowart
2.2(7)	Amendment No. 1, dated December 2008, to Amended and Restated Agreement and Plan of Merger by and among World Waste Technologies, Inc., Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), Vertex Energy, Inc., Vertex Merger Sub, LLC and Benjamin P. Cowart
2.3(7)	Amendment No. 2, dated December 2008, to Amended and Restated Agreement and Plan of Merger by and among World Waste Technologies, Inc., Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), Vertex Energy, Inc., Vertex Merger Sub, LLC and Benjamin P. Cowart
2.4(7)	Amendment No. 3, dated January 28, 2009, to Amended and Restated Agreement and Plan of Merger by and among World Waste Technologies, Inc., Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), Vertex Energy, Inc., Vertex Merger Sub, LLC and Benjamin P. Cowart
2.5(7)	Amendment No. 4, dated February 2, 2009, to Amended and Restated Agreement and Plan of Merger by and among World Waste Technologies, Inc., Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), Vertex Energy, Inc., Vertex Merger Sub, LLC and Benjamin P. Cowart
2.6(1)	Amendment No. 5, dated as of March 31, 2009, to Amended and Restated Agreement and Plan of Merger by and among World Waste Technologies, Inc., Vertex Holdings, L.P. (formerly Vertex Energy, L.P.), Vertex Energy, Inc., Vertex Merger Sub, LLC and Benjamin P. Cowart.
3.1(2)	Articles of Incorporation (and amendments thereto) of Vertex Energy, Inc.
3.2(5)	Amended and Restated Certificate of Designation of Rights, Preferences and Privileges of Vertex Energy, Inc.'s Series A Convertible Preferred Stock.
3.3(2)	Withdrawal of Designation of the Company's Series B Preferred Stock
3.4(4)	Series B Convertible Preferred Stock Filing
3.5(2)	Bylaws of Vertex Energy, Inc.

- 4.1(2) Vertex Energy, Inc., 2008 Stock Incentive Plan
- 4.2(3) 2009 Stock Incentive Plan of Vertex Energy, Inc.
- 10.1(2) Asset Transfer Agreement
- 10.2(2) Services Agreement
- 10.3(2) Right of First Refusal Agreement
- 10.4(2) Operating and Licensing Agreement
- 10.5(2) Employment Agreement with Benjamin P. Cowart
- 10.6(2) Employment Agreement with John Pimentel
- 10.7(2) Employment Agreement with Matthew Lieb
- 10.8(2) Letter Loan Agreement with Regions Bank
- 10.9(2) Line of Credit with Regions Bank
- 10.10(2) Security Agreement with Regions Bank
- 10.11(3) Letter Agreement with Christopher Stratton
- 10.12(6) Loan Agreement with Bank of America
- 10.13(6) Security Agreement
- 10.14(8)(+) Tolling (Processing) Agreement with KMTEX
- 10.15(8)(+) First Amendment to Processing Agreement with KMTEX
- 10.16(8) Form of Voting Agreement
- 10.17(8) Form of Lock-Up Agreement
- 10.18(8) Amended and Restated Employment Agreement with Chris Carlson
- 10.19(8) First Amendment to Employment Agreement with Benjamin P. Cowart
- 10.20(8) First Amendment to Employment Agreement with Matt Lieb
- 10.21(9) Addendum to The Employment Agreement Between Vertex Energy, Inc. and Greg Wallace (July 5, 2011)
- 14.1(2) Code of Ethics
- 16.1(2) Letter from Stonefield Josephson, Inc.
- 21.1(10) Subsidiaries
- 31.1\* Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.

31.2*	Certification of Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1*	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act
32.2*	Certification of Principal Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act
99.1(2)	Glossary of Selected Terms
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

(1) Filed as an exhibit to the registrant's Report on Form 8-K, filed with the Commission on April 8, 2009, and incorporated herein by reference.

(2) Filed as an exhibit to the registrant's Report on Form 8-K/A, filed with the Commission on June 26, 2009, and incorporated herein by reference.

(3) Filed as an exhibit to the registrant's Report on Form 8-K, filed with the Commission on July 31, 2009, and incorporated herein by reference.

(4) Filed as an exhibit to the registrant's Report on Form 8-K, filed with the Commission on January 14, 2010, and incorporated herein by reference.

(5) Filed as an exhibit to the registrant's Report on Form 8-K, filed with the Commission on July 16, 2010, and incorporated herein by reference.

(6) Filed as an exhibit to the registrant's Report on Form 8-K, filed with the Commission on September 24, 2010, and incorporated herein by reference.

(7) Filed as Appendix A to the Company's Definitive Schedule 14A Proxy Statement, filed with the Commission on February 6, 2009, and incorporated by reference herein.

(8) Filed as an exhibit to the Company's Report on Form 10-K, filed with the Commission on March 31, 2011, and incorporated by reference herein.

(9) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q, filed with the Commission on November 1, 2011, and incorporated herein by reference.

(10) Filed as an exhibit to the Company's Report on Form 10-K, filed with the Commission on March 29, 2012, and incorporated herein by reference.

(+) Certain portions of these documents as filed herewith (which portions have been replaced by "X's") have been omitted in connection with a request for Confidential Treatment as submitted to the Commission in connection with this filing. This entire exhibit including the omitted confidential information has been filed separately with the Commission.

\*\* Pursuant to Rule 405(a)(2) of Regulation S-T, the Company will furnish the XBRL Interactive Data Files with detailed footnote tagging as Exhibit 101 in an amendment to this Form 10-Q within the permitted 30-day grace period for the first quarterly period in which detailed footnote tagging is required after the filing date of this Form 10-Q.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, hereunto duly authorized.

**VERTEX ENERGY, INC.**

Date: August \_\_, 2012

By: /s/ Benjamin P. Cowart  
Benjamin P. Cowart  
Chief Executive Officer  
(Principal Executive Officer)

Date: August \_\_, 2012

By: /s/ Chris Carlson  
Chris Carlson  
Chief Financial Officer  
(Principal Financial Officer)

